

VZCZCXYZ0000
PP RUEHWEB

DE RUEHMN #0149/01 0441908
ZNY CCCCC ZZH
P 131908Z FEB 06
FM AMEMBASSY MONTEVIDEO
TO RUEHC/SECSTATE WASHDC PRIORITY 5375
INFO RUCNMER/MERCOSUR COLLECTIVE
RUEHBO/AMEMBASSY BOGOTA 2462
RUEHCV/AMEMBASSY CARACAS 0367
RUEHLP/AMEMBASSY LA PAZ FEB SANTIAGO 2781
RUMIAAA/CDR USSOUTHCOM MIAMI FL//J-5//
RUEHC/DEPT OF AGRICULTURE WASHDC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RHEHNSC/NSC WASHDC
RUEHMN/ODC MONTEVIDEO UY
RUEKJCS/SECDEF WASHDC
RUEHMN/USDAO MONTEVIDEO UY
RUEHGV/USMISSION GENEVA 0464
RUEHUB/USINT HAVANA 0044

C O N F I D E N T I A L MONTEVIDEO 000149

SIPDIS

SIPDIS

DEPT FOR WHA A/S SHANNON AND WHA/BSC
DEPT FOR EB A/S WAYNE AND EB/TPP
DEPT PLEASE PASS USTR
NSC FOR DFISK AND SCRININ
BRASILIA FOR JSTORY
USDOC FOR WHA/DAS WBASTIAN
USSOUTHCOM FOR POLAD

E.O. 12958: DECL: 02/09/2016
TAGS: [PREL](#) [PGOV](#) [SENV](#) [SOCI](#) [EAGR](#) [AR](#) [UY](#)
SUBJECT: DISPUTE OVER PULP MILLS DEEPENS

REF: MONTEVIDEO 00004

Classified By: Charge D'Affaires James D. Nealon
for reasons 1.4 (B) and (D)

¶1. (C) Summary: The pulp mill dispute between Argentina and Uruguay (reftel) has only intensified in the past month, and the dispute, which until recently had been a provincial issue for Argentina, has become a national cause in Uruguay for which vital interests are at stake. Uruguay contends that the protesters' blockades on the border have already inflicted considerable economic damage and fear worse to come. Bilateral relations continue to deteriorate between the two nations and several of our official contacts have speculated that the dispute may cause permanent damage. The dispute may already be having an impact on Mercosur's unity and investment climate. We can see no easy way for either country to back down or for a resolution to this dispute any time soon. End Summary.

RECENT EVENTS

¶2. (SBU) Argentine protesters have sporatically blocked tourist traffic since late December, and in early February, they began to block trucks laden with construction materials for the wood pulp (cellulose) mills in Fray Bentos. The resulting backlog of traffic has hurt tourism and commerce in Uruguay. According to Uruguay's most influential newspaper, El Pais, President Kirchner sanctioned the blockade on February 9 as a "national cause." Newspapers reported as many as 400 trucks backlogged at the main bridge to Uruguay with waits as long as three days. One account stated that a truck full Chilean fish rotted during the stand still, and other reports stated that multiple trucks returned to their points of origin. The stoppage has also ensnared Argentine tourists traveling to and from the popular Uruguayan beaches.

EMOTION

13. (SBU) Public resentment against the GOA is running deep. Uruguayans have threatened retaliation for the bridge blockages with some of their own measures, including a boycott of Argentine resorts such as Bariloche. The media has been fond of referring to Argentina's Governor of Entre Rios Jorge Busti as "Busti-Laden." During his cabinet meeting last week, President Vazquez recalled the lyrics of an old tango as a way of criticizing the Argentines by saying that that they "were like a man who beats his wife because she may cheat on him four or five years from now." (Note: Vazquez has promised a regional tour next month to drum up support for Uruguay's position on the pulp mills, but has been unable to meet with President Kirchner on the issue. End Note.)

ECONOMIC NECESSITY

13. (SBU) Local analysts have estimated that the Uruguayan tourist industry may have lost as much as \$20 million in tourist income from Argentina. While some of this shortfall has been replaced by an increase in Brazilian tourists, officials predict a significant net loss to the tourism industry this austral summer. In addition, Uruguay's Minister of Foreign Affairs Reinaldo Gargano stated that 90 million tons of goods normally cross the blocked bridge each year. In addition to Uruguay, shipments destined for Paraguay and Bolivia have also been affected. Press reports indicated that several Chilean, Brazilian and Paraguayan companies were initiating lawsuits against the Government of Argentina for failing to guarantee the free circulation of road traffic.

14. (SBU) The economic stakes for Uruguay are high. The \$1.9 billion foreign investments for the paper mill projects equate to more than 10% of GDP. According to the Cumulative Impact Study (CIS), commissioned by the World Bank, construction and operation of the mills would directly or indirectly employ between 7 and 15 thousand persons. Uruguay also hopes to diversify its export base which currently relies heavily on the beef industry and sees the growing international market for pulp and wood products as a way to do this.

DETERIORATING RELATIONS

15. (SBU) The MFA's America's Desk Director and other officials told us that the dispute with Argentina is Uruguay's "number one foreign policy headache." On February 8, the MFA sent an official letter of protest to Buenos Aires about the blockade and demanded that the GOA take action against the protesters. Argentina declared its intent to take Uruguay before the World Court in The Hague, and Uruguay promised to take Argentina to Mercosur's tribunal. (Comment: We expect none of these measures will have much effect. End Comment.) The Hague process is long, and local commentators expect that Argentina would ignore a ruling in Uruguay's favor. Uruguay has twice previously complained to Mercosur's tribunal about Argentina, but in the one case where Uruguay prevailed, Argentina has not yet made restitution. One commentator worried that the dispute "hurts the world's confidence in Latin America and Latin America's confidence in itself."

16. (SBU) Recent attempts at reconciliation have failed. Vazquez and Kirchner have spoken by telephone, there has been talk of Vatican intervention, and members of an international leftist coalition from Argentina have visited their counterparts in Uruguay, but none of these efforts has produced a reliable forum, let alone results. Uruguay, for

its part, feels confident of the mills' low environmental impact, betrayed by Argentina, and unwilling to compromise an industry which will bring thousands of jobs annually and start Uruguayan exports down a new, lucrative path. The perception is also one of a double-standard by the environmentalists and by Argentina, where 11 aging paper mills are located on rivers bordering Paraguay and Uruguay, most of them --according to the Uruguayans-- with outdated and polluting technology.

COMMENT

17. (C) Uruguay's economic recovery heavily depends on wood and meat exports. From its perspective, both vital commodities are currently being threatened by Argentina. MFA officials told us that bilateral relations with Argentina are at their lowest point in decades because of the dispute over the pulp mills. In addition, the recent outbreak of hoof-and-mouth disease in Argentina's Corrientes province has further tensed relations and fueled public fears that Uruguay could once more wind up as an economic victim of its larger neighbor. Uruguayans assert that Argentina was responsible for the last outbreak of hoof-and-mouth here in 2001 and recall that the financial crisis of 2002 was the result of the financial meltdown in Argentina. President Vazquez, bolstered by widespread public support and the backing of the entire political spectrum, has vowed that nothing will stop the construction of the pulp mills in Fray Bentos. The soured bilateral relationship bears watching in case it produces further, unforeseen negative consequences. End Comment.
Nealon